

**MINUTES OF THE MEETING OF
THE ADVISORY COMMITTEE OF THE
LOCAL GOVERNMENT PROPERTY INSURANCE FUND**

Wednesday, April 14, 2004

**Office of the Commissioner of Insurance
GEF 3
125 South Webster, Room 227
Madison**

PRESENT: Kevin Houlihan, Chair, City of Madison
Nicholas Alioto, 2nd Vice Chair, Tigerton School District
Carole Charles, Outagamie County
Julee Helt, Village of Waunakee
Andrew Licata, Hayward Community Schools
Nicholas Onyszczyk, City of New Lisbon
Harold Reckelberg, Town of Luxemburg
John Roth, Lake Geneva School District
Jerry Runice, Berlin Area School District
Doug Saubert, City of Whitewater
Barb Wegner, Dane County
Mark Wyss, City of Mequon

GUESTS: Eileen Mallow, Office of the Commissioner of Insurance
Dan Bubolz, Office of the Commissioner of Insurance
Lowell Carter, The ASU Group
Greg Grunow, The ASU Group
Sue Hoffman, The ASU Group
Fred Haring, The ASU Group
Mike Dowgiewicz, The ASU Group
Matt Carl, The ASU Group
April Zelinski, The ASU Group
Dave Marchant, Marchant Consulting

ABSENT: Connie Fisher, Chippewa County
Nick Evgenides, Brown County
Gary Hansen, Rosendale-Brandon School District
Don LaFontaine, City of Oshkosh
Glinda Loving, Vice Chair, Milwaukee Metropolitan Sewage District
Keith Lucius, Ashwaubenon School District
John Rath, Milwaukee County
Ken Rogers, Eleva Strum School District
Laura Stauffer, Waukesha County

Kevin Houlihan called the meeting to order at 9:40 a.m.

Kevin Houlihan welcomed attendees and introductions were made.

The Committee meeting relocated temporarily to the OCI Training room. Dan Bubolz facilitated a presentation of the new Electronic Statement of Values. The committee, consisting of Don LaFontaine, City of Oshkosh, and various staff members, is working towards developing an interactive, secure process on the Fund's website for entering new and updating existing statements of values. Following the presentation, the Committee reconvened in Room 227.

In accordance with the Advisory Committee By Laws that were adopted in October 2003, Kevin Houlihan conducted the **Appointment of Members** to the Advisory Committee in accordance with the attached schedule. Members are required to submit letters from their employers within sixty (60) days to the Administrator verifying that they have the approval to represent their entity on the Committee.

Upon a motion duly made by Julee Helt and seconded by Nicholas Alioto, it was unanimously

RESOLVED, that the Advisory Committee appointments are approved as presented, subject to receipt of employer approval letters.

Kevin Houlihan conducted the **Selection of Officers**. 2nd Vice Chair, Nicholas Alioto, was asked to facilitate the selection of Chair. Upon a motion duly made by Harold Reckelberg and seconded by Andrew Licata, it was unanimously

RESOLVED, that Kevin Houlihan is selected to serve as Advisory Committee Chair for 2004.

Kevin Houlihan facilitated the selection of Vice Chair and 2nd Vice Chair. Upon a motion made by Carole Charles and seconded by Barb Wegner, it was unanimously

RESOLVED, that Glinda Loving is selected to serve as Advisory Committee Vice Chair for 2004.

Upon a motion duly made by Harold Reckelberg and seconded by Jerry Runice, it was unanimously

RESOLVED, that Nicholas Alioto is selected to serve as Advisory Committee 2nd Vice Chair for 2004.

The agenda was reviewed and no new items added.

Upon a motion duly made by Jerry Runice and seconded by Julee Helt, it was unanimously

RESOLVED, that the minutes of the Advisory Committee of October 29, 2003 are approved as presented.

Old Business

Dan Bubolz provided an update regarding Valuation Procedures. OCI has worked with member MMSD to resolve issues related to values. The process identified that a mechanism called "Total Component" modeling may be a more appropriate method for establishing values based upon reconstruction versus replacement costs. On average, it may increase property values by nine to twelve percent. This will be explored further with American Appraisal with the assistance of ASU.

Eileen Mallow updated the Committee regarding Marathon County. The involved parties are in the process of having the property appraised and attempting to arrive at a negotiated settlement.

Dan Bubolz presented the **Manager's Report**.

1. Fund Computer System Upgrade Status

A contract for Pinsoft was awarded to Marchant Consulting effective January 1, 2004. Since that time, Administrative staff has been working with the contractor to convert to the new system. The conversion will be accomplished in two phases, with target date for completion by July 1, 2004.

2. Electronic Statement of Values Project

Upon a motion duly made by Harold Reckelberg and seconded by Nick Onyszczak, it was unanimously

RESOLVED, that the Committee approves the scope and direction of the Electronic Statement of Values project as presented.

3. Reinsurance Renewal as of April 1, 2004

The renewal has been completed with effective dates of coverage of March 31, 2004 through March 31, 2005 with the new broker of record, Willis of Wisconsin. The prior policy provided \$240 million for about \$5.3 million in premium. The new coverage provides \$325 million of coverage for about \$4.5 million in premium. Terrorism coverage is provided for both foreign and domestic occurrences.

4. PML Study

The Fund has been looking at conducting a probably maximum loss study of the top ten risks insured by the Fund. Most of these risks are located in the Milwaukee area. The new broker will be looking at fire and windstorm, as well as, terrorism losses. When the modeling is completed, the information will be used to analyze the reinsurance requirements.

April Zelinski, Fred Haring, Lowell Carter, Greg Grunow and Sue Hoffman, presented the **Administrator's Report**.

1. Claims

i. Activity Report

Greg reviewed and commented on several charts and graphs depicting claims activity. Severity and frequency have decreased in 2004. Except for the 2002 windstorms, claims activity has been fairly consistent over the past four Fund years. He did note, however, that due to large claim payments made in the 3rd quarter, total claim payments have about doubled.

Greg provided an update regarding the 2002 tornado losses. He noted that over \$4 million dollars was incurred for losses as a result of the storm. For this Fund year, reinsurance paid approximately \$1.4 million dollars so far.

ii. Subrogation and Recoveries

Greg reviewed the outstanding recovery potential which exceeds \$3.5 million dollars at this time. Greg noted several factors that affect the Fund's ability to enforce subrogation rights, particularly, the use of waivers. Information regarding this topic will be published in the next newsletter. Over \$400,000 has been recovered in the 3rd quarter.

iii. Loss Control

Greg discussed his observations with regard to Loss Control issues. He noted that fires caused by unattended candles has resulted in significant losses for the Fund.

2. Policy Administration

i. Activity Report

Lowell Carter and Sue Hoffman reviewed several charts and graphs explaining the program's status as of the end of the second quarter of the current Fund year. School districts and Counties continue to be the dominant entities for property values, coverage and premiums. Sue explained that since the beginning of this Fund year, the Fund has gained about \$60,000 in new business on a net basis. ASU is attempting to determine why policyholders choose to leave the Fund and from whom they are purchasing their coverage.

ii. Non-Owned Property

Lowell advised that no unusual items of non-owned property are being submitted to the Fund.

iii. New Forms

Lowell reviewed the revised forms that have been filed with and approved for use by OCI and noted changes that have been made. Suggestions for improvement in a few of the forms were made and will be reviewed for possible implementation.

3. Current Staff Directory

An updated directory of ASU's designated Administrative Team is provided.

4. Newsletter

A copy of the most recently published newsletter is provided. The next newsletter is in the process of being prepared. EVERYONE is encouraged to submit articles or topics for the newsletter.

Dave Marchant presented the **Financial Report**. Dave reminded the Committee that he compiles the data but does not audit it. Dave highlighted some of the more significant areas of the report including:

- Policyholder surplus continues to increase in keeping with the projections made due to rate increases and increases in property values and premiums. The Fund is recording surplus of over \$18 million, with it's target being \$20 million.
- Of the almost \$3.4 million in Fire claim case reserves, about \$3,000,000 is reserved solely for the Marathon County claim.

- For the first time in several quarters, the Fund is showing a Net Underwriting Gain of over \$4 million. This is up from a more than \$4.8 million loss at the same time last year.
- Likewise, the Fund has recorded \$4.5 million in Net Income as compared to a \$4.2 million Net Loss at this time last year.
- The net effect of the increased rates is about a 90% increase overall.
- Although there are several large claims that occurred in the 3rd quarter of this Fund year, we expect to continue to build surplus to targeted levels.
- On a YTD basis for the current Fund year, the Fund's combined loss ratio is 60% after reinsurance costs and recoveries compared to 126% at the end of Fund year 2002.

Committee Reports

Due to the absence of sub-committee members, Dan Bubolz presented a report on behalf of the **Rating Sub-Committee**. The recommendations of the sub-committee were presented, which is to accept the recommendation of the actuary that no rate increases or decreases be implemented.

Upon a motion made by Carole Charles and seconded by Nick Alioto, it was unanimously

RESOLVED, that the Advisory Committee approve the recommendation of the Deloitte Rate Indication Analysis and maintain the rates for all lines at current levels for one more year and reevaluate again next year.

Upon a motion made by Nick Alioto and seconded by Carole Charles, it was unanimously

RESOLVED, that the target level for the Fund's Surplus should be \$20 million and a 1:1 Premium to Surplus ratio for the near future.

Julee Helt provided a report on the activities of the **Claims & Policy Issues Sub-Committee**. Several areas of coverage were discussed including extra expense, unscheduled locations, contractor's equipment, non-owned real estate, etc. The sub-committee is not prepared to make final recommendations on any of these items. They intend to meet further to clarify, analyze and refine the information prior to presenting firm recommendations to the Advisory Committee. This would also include consulting with OCI staff, Deloitte & Touche regarding rating issues, and outside legal counsel specializing in coverage documents to assist with the process.

Kevin Houlihan discussed **Sub-Committee Appointments**. Nicholas Alioto volunteered to serve on the Rate Analysis Sub-Committee and also accepted the position of Chair. Doug Saubert volunteered to serve on both the Rate Analysis Sub-Committee and the Claims & Policy Issues Sub-Committee.

The **Next Meeting of the Advisory Committee** will be held on Wednesday, October 27, 2004 beginning at 9:30 a.m. at the same location.

Upon a motion duly made by Andrew Licata and seconded by Nicholas Onyszczak, it was unanimously

RESOLVED, that the meeting of the Advisory Committee is adjourned at 12:30 p.m.

Respectfully submitted,

April Zelinski, Acting Secretary

Date

ATTEST:

Kevin Houlihan, Chair

Date